

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayner  
Marshall Johnson  
Ken Nickolai  
Phyllis A. Reha

Chair  
Commissioner  
Commissioner  
Commissioner

In the Matter of the Petition of Xcel Energy for  
Approval to Separate Renewable Development  
Fund Cost Recovery from the Fuel Clause  
Adjustment, Establish a Renewable  
Development Fund Rate Rider, and Establish  
Deferred Accounting Treatment

ISSUE DATE: June 11, 2004

DOCKET NO. E-002/M-03-2018

ORDER CHANGING INTER-  
JURISDICTIONAL COST ALLOCATIONS,  
ESTABLISHING RATE RIDER, AND  
REMOVING RENEWABLE DEVELOPMENT  
FUND EXPENSES FROM THE FUEL  
CLAUSE

**PROCEDURAL HISTORY**

**I. Introduction and Background**

**A. Early Action on the Renewable Development Fund**

In 1994 the Legislature passed legislation requiring the utility operating the Prairie Island nuclear plant (Xcel Energy) to make annual payments of \$500,000 for each dry cask containing spent nuclear fuel stored at the Prairie Island plant;<sup>1</sup> these payments were to be transferred into a fund for the development of renewable energy. In 1999, the Legislature added a requirement that disbursements from the fund be subject to Commission review and approval.

On April 20, 2001, the Commission issued an Order setting initial operational guidelines and oversight procedures for the Renewable Development Fund.<sup>2</sup> Among other things, that Order approved an all-stakeholder agreement setting criteria for selecting the renewable energy projects to be funded. The Order also granted Xcel's request to use an existing automatic rate adjustment, the fuel clause Adjustment, to recover Renewable Development Fund costs, consistent with the statutory directive to permit rate recovery by automatic rate adjustment.<sup>3</sup>

---

<sup>1</sup> Minn. Stat. § 116C.779.

<sup>2</sup> *In the Matter of the Request of Northern States Power Company d/b/a Xcel Energy for Approval of a Renewable Development Fund Oversight Process*, Docket No. E-002/M-00-1583, Order Adopting Proposal for Oversight and Operation of Renewable Development Fund (April 20, 2001).

<sup>3</sup> Minn. Stat. § 216B.1645, subd. 2.

## **B. Subsequent Developments**

In July 2003 the Commission issued an Order revising the original operational guidelines and oversight procedures based on stakeholder evaluations of the first funding cycle of the Renewable Development Fund.<sup>4</sup> Among other things, that Order directed the Fund's Board to grant a 10% scoring preference to proposed projects sponsored by the Prairie Island Indian Community and to develop a mechanism for granting a preference to Minnesota institutions when awarding research and development grants.

During the 2003 session, the Legislature passed legislation requiring the Renewable Development Fund to allocate some \$6,000,000 per year to fund renewable energy production incentives, replacing earlier tax incentives and available only to Minnesota enterprises.<sup>5</sup> The Legislature also directed Xcel to transfer \$10,000,000 from the Renewable Development Fund to the University of Minnesota for basic and applied research into hydrogen energy technologies.<sup>6</sup>

Also in 2003, the Commission issued an Order requiring Xcel to separate the fuel clause adjustment from other automatic rate adjustments on customers' bills.<sup>7</sup> These other automatic rate adjustments included the rate adjustment funding the Renewable Development Fund.

## **II. The Current Petition**

On December 29, 2003, Xcel filed a petition seeking Commission approval to take the following actions:

- Separate the automatic rate adjustment funding the Renewable Development Fund from the fuel clause adjustment.
- Revise the inter-jurisdictional cost allocations for the Renewable Development Fund to reflect revised, more Minnesota-specific funding priorities and directives.
- Establish deferred accounting treatment for 2003 Fund costs previously allocated to other jurisdictions and subsequently reallocated to Minnesota ratepayers.
- Establish a new Renewable Development Fund rate rider, tracker account, and true-up process.

---

<sup>4</sup> *In the Matter of the Request of Northern States Power Company d/b/a Xcel Energy for Approval of a Renewable Development Fund Oversight Process*, Docket No. E-002/M-00-1583, Order Revising Operational Guidelines and Oversight Procedures and Requiring Further Filings (July 29, 2003).

<sup>5</sup> Minn. Stat. § 116C.779, subd. 2.

<sup>6</sup> Minn. Laws 2003, 1<sup>st</sup> Special Session, Chapter 11, article 2, section 18.

<sup>7</sup> *In the Matter of Northern States Power Company d/b/a Xcel Energy's Fuel Clause Adjustment, Petition for Approval of Base Cost of Energy Revision and Compliance Filing*, Docket No. E-002/M-02-2097, Order Approving Proposal, Requiring Compliance Filing, and Opening Investigation into the Continuing Usefulness of Fuel Clause Adjustments for Electric Utilities (June 4, 2003).

- Modify Renewable Development Fund reporting requirements to reflect timing changes.

The Company sought variances to the fuel clause Adjustment Rules to implement these changes and requested approval of revised tariff sheets reflecting them.

On January 27, 2004, the Department of Commerce (the Department) filed comments recommending granting the petition with minor modifications. The Department recommended requiring the Company to work with the Commission's Consumer Affairs Office to develop a customer notice, rejecting the Company's proposal to allocate all the administrative costs of the Renewable Development Fund to Minnesota ratepayers, and rejecting the request for deferred accounting treatment.

On February 9, 2004, the Company filed reply comments. On May 27, 2004, the matter came before the Commission, where the parties presented a joint recommendation resolving all previously disputed issues. In brief, the parties recommended a formula for allocating the Fund's administrative costs among all Xcel jurisdictions and recommended adopting an effective date for the new tariff that obviated the need for deferred accounting.

### **FINDINGS AND CONCLUSIONS**

The Commission concurs with the joint recommendation of the Company and the Department. That recommendation is not only just and reasonable, but it effectively addresses the logistics of implementing the cost reallocation and related changes.

It is clear that the Legislature intended to ensure rate recovery of Renewable Development Fund expenditures. It now appears that the inter-jurisdictional cost allocations adopted earlier will no longer result in that recovery. The Commission will therefore adopt the parties' recommendation to reallocate all non-generation costs, and all administrative expenses other than those related to generation, to the Minnesota jurisdiction.

The Commission also concurs with the parties that making the date of final enactment of the 2003 legislation – May 29, 2003 – the effective date for the new tariff is more efficient, straightforward, and reasonable than granting deferred accounting treatment. That date marks the point at which the character, proper jurisdictional allocation, and rate impact of significant portions of the Fund's expenditures changed. Making the rate itself effective on that date is both equitable and transparent.

The Commission concurs with the parties' recommendation that the Company work with Consumer Affairs to develop a customer notice. The Commission agrees that its previous Order requires the Company to remove the Renewable Development Fund's automatic rate adjustment from the fuel clause and will revoke and grant variances as recommended by the parties to accomplish that end. The Commission finds the parties' joint recommendations on timing and reporting requirements reasonable and will adopt them. These actions are set forth in greater detail in the ordering paragraphs.

The Commission will also ask the Department to review the appropriateness of a carrying charge on the tracker balance as part of its review of the new tariff. It was not clear at hearing that this issue had been fully resolved.

The Commission will so order.

### **ORDER**

1. The Commission hereby grants Xcel Energy's petition to establish a Renewable Development Fund rate rider, tracker account, and true-up process, as set forth more fully below.
2. The Company shall modify the rate rider to set forth the actual Renewable Development Fund charge.
3. The Company shall work with the Commission's Consumer Affairs Office to develop an adequate notice to customers of the new rate rider.
4. On or before October 1 of each year, the Company shall make a filing detailing the status of its Renewable Development Fund rider tracker account and proposing a rate for the upcoming year.
5. On or before October 1 of each year, the Company shall file a combined Renewable Development Fund compliance and tracker account true-up filing.
6. The existing Renewable Development Fund charge shall remain in effect pending Commission review of and action on the annual report, even if that action occurs or is implemented after the January 1 target date. Any over-recoveries or under-recoveries occurring during the period between January 1 and implementation of Commission-ordered true-ups shall remain in the tracker account and be rolled into the rate determination for the next annual period.
7. The Commission hereby grants Xcel's request that it revoke the variance to Minnesota Rules, part 7825.2400, subpart 9, which was granted to permit inclusion of the Renewable Development Fund charge in the fuel clause adjustment.
8. The Commission hereby grants Xcel's request for variances to Minnesota Rules, parts 7820.3500 (K) and 7825.2600 to permit inclusion of the Renewable Development Fund automatic rate adjustment in the Resource Adjustment on customers' bills.
9. Xcel shall continue its current cost allocation procedures for its Renewable Development Fund's "Category A Projects," projects that generate electricity.
10. The Commission hereby grants Xcel Energy's request to allocate 100% of the costs of its Renewable Development Fund's "Category B Projects," research and development projects, to the Minnesota jurisdiction.
11. The Commission hereby grants Xcel Energy's request to allocate 100% of the costs of the Renewable Energy Production Incentives portion of its Renewable Development Fund to the Minnesota jurisdiction.

12. The Commission hereby approves Xcel's proposal to revise its cost allocation procedures for administrative costs to allocate the administrative costs of Category A projects to all jurisdictions on the basis of the target funding guidelines adopted for each annual funding cycle.
13. Within 30 days of the date of this Order, the Company shall make a compliance filing including (a) a new Renewable Development Fund rate rider tariff with an effective date of May 29, 2003; and (b) calculations updating the amount of the rate rider reflecting the actual implementation date.
14. The Commission invites the Department of Commerce to review the appropriateness of a carrying charge on the Renewable Development Fund tracker balance as part of its review of the new tariff.
15. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar  
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 297-4596 (voice), or 1-800-627-3529 (MN relay service).